

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4997-01  
Bill No.: SB 999  
Subject: Economic Development; Business and Commerce; Tax Credits  
Type: Original  
Date: March 16, 2010

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Bill Summary: This proposal modifies provisions relating to enhanced enterprise zones.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$0 or (\$63,561)	\$0 or (\$71,751)	\$0 or (\$73,903)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0 or (\$63,561)</b>	<b>\$0 or (\$71,751)</b>	<b>\$0 or (\$73,903)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>0 or 1 FTE</b>	<b>0 or 1 FTE</b>	<b>0 or 1 FTE</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

In response to a similar proposal from this year (HB 2026), officials from the **Office of Administration - Budget and Planning (BAP)** stated this proposal creates "certified industrial zones" as part of the enhanced enterprise zone program. The proposal expands the industries eligible for these zones.

This proposal may increase the issuances and redemptions for the EEZ program. DED had projected \$14.6M in authorizations for FY12, and a smaller amount if issuances and redemptions. This proposal will reduce general and total state revenues to the extent redemptions increases. This proposal may encourage additional economic activity, but BAP cannot estimate the induced revenues. DED may have such an estimate.

In response to a similar proposal from this year (HB 2026), officials from the **Department of Economic Development (DED)** stated the proposed legislation revises the Enhanced Enterprise Zone program and adds new language for the creation of "certified industrial zones." Section 135.967 allows part of the \$24 million cap to be used for the new certified industrial zone program.

DED stated they anticipate an increase in the amount of zones that will be approved and therefore anticipates an increase in the workload. Based on that increase, an additional FTE would be needed in the Business and Community Services Division. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the project plan applications to make sure they meet the criteria of the program and conducting random audits to ensure compliance with the program. The related costs for these FTE include one-time expenditures for systems furniture, side chairs, file cabinets, calculators and telephones and recurring costs for office supplies, computers, professional development and travel. DED estimates the cost for this FTE to be roughly \$75,000 per year.

**Oversight** assumes DED's estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly \$6,000.

**Oversight** will assume DED could absorb the administration of this proposal until a certain number of new certified industrial zones are created. Therefore, Oversight will range the fiscal impact to DED from \$0 to the anticipated cost of the FTE.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$22,260 (840 FTE hours to make programming changes to the individual income tax processing system (MINITS) and the corporate income tax processing system (COINS)).

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Officials from the Department of Revenue also stated their Personal Tax Section would need one Revenue Processing Technician I for every 6,000 new credits claimed. DOR's Collections and Tax Assistance Section would need one FTE for every 24,000 contacts on the non-delinquent tax line, one FTE for every 15,000 contacts on the delinquent tax line, and one FTE for every 4,800 contacts in the tax assistance offices. Also, DOR's Corporate Tax Section states this proposal creates a new tax credit to be applied to Chapter 143 taxes; therefore, would need one FTE for every 6,000 additional tax credit redemptions.

In summary, DOR assumes the cost of the five additional FTE would cost roughly \$215,000 per year.

Based upon the number of certificates issued and projects currently in the Enhanced Enterprise Zone program (see chart below), **Oversight** assumes the number of contacts made and credits redeemed will not reach the thresholds mentioned by DOR for requiring additional FTE. If the new program within the EEZ program is widely used, Oversight assumes DOR could request additional FTE through the appropriations process.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be

ASSUMPTION (continued)

passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** assume the proposal would not fiscally impact their agency.

According to the Tax Credit Analysis sheet supplied by the Department of Economic Development, The Enhanced Enterprise Zone program has had the following activity;

	FY 2007	FY 2008	FY 2009	FY 2010 (projected)	FY 2011 (projected)
Certificates Issued	4	18	31	50	65
Projects	4	38	30	55	75
Amount Authorized	\$3,650,200	\$7,614,660	\$9,807,051	\$12,850,000	\$14,600,000
Amount Issued	\$115,319	\$1,199,842	\$2,262,259	\$4,000,000	\$6,100,000
Amount Redeemed	\$5,188	\$756,006	\$1,454,319	\$2,600,000	\$3,965,000

**Oversight** assumes this proposal may increase the amount of credits that are issued under the Enhanced Enterprise Zone program by an unknown amount annually. However, Oversight has already reflected the potential loss to General Revenue up to the annual \$24 million cap in prior fiscal notes. The changes within this proposal do not change that annual cap. Therefore, while this proposal may increase the utilization of the program, Oversight will assume DED will still not be able to issue credits above the previously established \$24 million annual cap, and therefore, Oversight will not show additional revenue loss resulting from this proposal.

**Oversight** also assumes this proposal could have positive fiscal impact to the state; however, Oversight considers those benefits to be indirect affects and have to reflected them in the fiscal note.

**This proposal could reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<b>GENERAL REVENUE</b>			
<u>Costs - DED</u>			
Personal Service (1 FTE)	\$0 or (\$35,803)	\$0 or (\$44,252)	\$0 or (\$45,580)
Fringe Benefits	\$0 or (\$18,775)	\$0 or (\$23,206)	\$0 or (\$23,902)
Expense and Equipment	<u>\$0 or (\$8,983)</u>	<u>\$0 or (\$4,293)</u>	<u>\$0 or (\$4,421)</u>
<u>Total Costs - DED</u>	<u>\$0 or (\$63,561)</u>	<u>\$0 or (\$71,751)</u>	<u>\$0 or (\$73,903)</u>
FTE Change - DED	1 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>\$0 or</u> <u>(\$63,561)</u></b>	<b><u>\$0 or</u> <u>(\$71,751)</u></b>	<b><u>\$0 or</u> <u>(\$73,903)</u></b>
Estimated Net FTE Change for General Revenue	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

#### FISCAL IMPACT - Small Business

Small businesses that qualify for this new program may be fiscally impacted by this proposal.

#### FISCAL DESCRIPTION

This act modifies provisions of the enhanced enterprise zone program by creating a tax credit which will be available to taxpayers that establish a new business facility in a certified industrial zone approved or designated as an enhanced enterprise zone by the Department of Economic Development. Certified industrial zones are defined as any area of real property that

FISCAL DESCRIPTION (continued)

encompasses at least one hundred acres which has been approved by the department as a certified site; has been found by ordinance of the governing body to be blighted; and is located in a census tract which has a poverty rate of at least twenty percent or for which the median income is less than the greater of eighty percent of the statewide median income or eighty percent of the metropolitan median income for the metropolitan statistical area in which the zone is located.

A taxpayer who receives tax credits for establishing a new business facility in a certified industrial zone cannot also receive tax credits from the new or expanded business facilities, enterprise zones, relocating a business to a distressed community, or Missouri Quality Jobs programs. To receive the tax credit, a taxpayer must employ at least two new individuals at the new business facility and invest at least one million during the taxable year in which the credit is claimed or at least ten million dollars in the aggregate for the new business facility. Tax credits may be issued over a period of up to ten years and will be equal to ten percent of the gross wages of each new employee at the facility and five percent of the investment made in the new business facility within an enhanced enterprise zone.

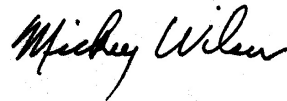
Taxpayers may receive the tax credit for an existing facility which expands if they invest at least one hundred thousand dollars and hire at least two additional employees during the tax year in which the credits are claimed. The tax credits must be claimed for the taxable year in which commencement of commercial operations occurs at the new business facility and for each of the following nine years in which the credit is issued. The credits cannot be carried forward, but are refundable and transferable provided that the sale price of such credits cannot be less than seventy-five percent of par value.

The Department of Economic Development must verify that an applicant does not owe any delinquent taxes penalties, fees, assessments, or insurance taxes prior to the issuance of any tax credits. Taxpayers who are delinquent between June 15th and July 1st will be given thirty days to satisfy such delinquency. Available credits will be applied to delinquencies and any remaining credits will be issued to the applicant.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development  
Department of Revenue  
Office of Administration - Budget and Planning  
Office of the Secretary of State  
Department of Insurance, Financial Institutions and Professional Registration

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
March 16, 2010